



Guatemala: PL 480 Title II Monetization Market Analysis

May, 2000

**Rural and Agricultural Incomes in a Sustainable Environment
(RAISE)
IQC No. PCE-1-00-99-00001-00**

Submitted to:

USAID/Guatemala

Submitted by:

ARD-RAISE Consortium
1601 N. Kent Street, Suite 800
Arlington, VA 22209
U.S.A.
www.ard-raise.org





Guatemala: PL 480 Title II Monetization Market Analysis

by

**George P. Menegay
Simon Oosterman**

**Presented to
USAID/Guatemala**

under the Rural and Agricultural Incomes with a Sustainable Environment (RAISE)
Contract No. PCE-I-00-99-00001-00: Task Order 810

May, 2000

ARD-RAISE Consortium

1601 North Kent St., Ste 800
Arlington, VA 22209
Tel: 703-807-5700, Fax: 703-807-0889
gkerr@arddc.com

The ARD-RAISE Consortium:
Associates in Rural Development, Cargill Technical Services,
Associates for International Resources and Development, CARANA Corporation,
A.P. Gross & Company, International Programs Consortium, Land O' Lakes,
Purdue University, and TechnoServe

EXECUTIVE SUMMARY

The US Agency for International Development (USAID) has a well-regarded development strategy that it executes in cooperation with a number of Private Voluntary Organizations (PVOs). A substantial part of the budgets of PVOs is funded by the revenue generated from the monetization of Public Law No. 480 (PL 480) Title II commodities. In the recent past these commodities have been yellow corn and soybean meal, which are used as animal feed in the production of chicken (primarily) for human consumption.

Food for Peace (FFP) has indicated that monetization of animal feed would not be allowed after Fiscal Year (FY) 2001. Unless alternative commodities could be identified that would generate the US Dollar (USD) 9 to 10 million needed to fund the PVOs' action programs, USAID's development strategy would be dealt a devastating blow.

Apart from insisting that the commodities to be monetized would not be animal feed, FFP also expressed a preference for value-added products, small lot auctions and possibly, use of the Bolsa Agricola Nacional for monetizing.

Preliminarily, USAID Guatemala selected four commodities for the monetization shortlist, including refined vegetable (soybean) oil in 4L or 20L containers, wheat flour, potato flakes, and black beans. The team also considered commodities including soy-fortified products, beans, sorghum, and corn products.

This study identifies three commodities that could possibly, in combination, generate the needed funds – wheat, rice, and nonfat dry milk powder. Subsequent to the completion of the fieldwork phase of this report, however, it was learned that nonfat dry milk powder is not available for monetization and that the availability of rice is questionable. This would then leave only one commodity for PVOs to monetize — wheat. Therefore, commodity options available to PVOs are severely limited, making the phase-over from animal feed to wheat monetization more difficult. PVOs must also complete the phase-over in a one-year period, which puts them in a highly vulnerable position. If the phase-over is unsuccessful, or only partially successful, funding would be cut drastically, and the development programs would be significantly reduced. Such an outcome would significantly cripple progress toward food security, which is the final goal of USAID'S program in Guatemala.

In the case of wheat, there exists a good opportunity to use the monetizations to recapture some of the Guatemalan wheat market for the US after it had been lost to the Canadians, mainly as a result of poor performance by US firms. This would require close coordination between the players involved to assure that high quality material, meeting all specifications and other contract conditions, be combined with timely arrival in country.

Value-added products, such as wheat flour, should be considered for monetization only if they (or substitutes) are not being produced in the recipient country because of the damage that would be done to the local industry. Since there are vibrant markets for wheat flour and other value-added products in Guatemala, the team does not propose any value-added products. For certain value-added products considered by the team, there are no markets.

Rice and wheat would be sold cost and freight Puerto Quetzal. This is because commercial sales are done on the same basis. Thus, the market is there and price comparisons can be made with ease. Call forwards should be made in November/December at the latest. It should be possible to

ship the product all at once because of the simple market structure and relatively small quantity (compared to the overall market).

It is recommended that the Cooperating Sponsors (CS) conduct negotiated sales of the commodities. They should negotiate the price, as well as other conditions and contract terms with each group of buyers. Individual contracts may be signed with the different buyers. At the time of negotiation the market prices for the different types of wheat and delivery periods are available. Therefore the negotiation should concern itself with obtaining the smallest discount acceptable to the buyers to compensate for the disadvantages of monetized versus commercial product. Small lot auctions may be useful in some specific cases but never if the primary purpose of the monetization is to generate as much revenue as possible.

The proposed payment terms would be Cash Against Documents with provisions for a Letter of Credit or Bank Guarantee in all cases.

The Bolsa Agrícola Nacional is not an effectively functioning marketplace at the moment. It should not be used for monetizations whose primary purpose is the generation of funds.

When monetizing food aid, the goal evolves into raising as much money as possible, thus unavoidably causing substitution and disturbance of markets. All we can strive for is the minimization of these disturbances. Unfortunately, many of the regulations governing the monetization of commodities were developed for the direct distribution of food aid and were not or were insufficiently adjusted for optimum effectiveness in reaching the totally different objectives of monetization. For instance, since the goal of monetization is not direct hunger relief but generation of funds for indirect hunger relief, it has become irrelevant whether the commodities to be monetized are food or food-related. Rather, their suitability for monetization should be judged by their ability to generate the necessary revenue with minimum impact on existing commercial and marketing structures. In light of this, the decision to move away from animal feed should be reviewed.

Other suggestions that serve to maximize revenue from a given amount of commodities, and therefore minimize the impact of monetization on the markets, are to ensure that the PVOs cooperate in umbrella monetizations. The PVOs should also consider executing these monetizations through agents who have commodity-trading experience. Finally, contracts for monetized commodities should be comparable to commercial contracts for the same commodities.

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	i
TABLE OF CONTENTS	iii
ABBREVIATIONS	iv
 CHAPTER 1. INTRODUCTION	 1
CHAPTER 2. METHODOLOGY	2
CHAPTER 3. BACKGROUND	3
3.1 USAID STRATEGY	4
3.2 PVO RESPONSE	4
CHAPTER 4. REVIEW OF SHORTLISTED COMMODITIES FOR MONETIZATION	6
4.1 PRESELECTED COMMODITIES	6
4.1.1 Refined vegetable (soybean) oil in 4L or 20L containers	6
4.1.2 Wheat flour	6
4.1.3 Potato flakes	7
4.1.4 Black beans	7
4.2 Alternative Commodities	7
4.2.1 Soy Fortified Products	7
4.2.2 Beans	8
4.2.3 Sorghum	8
4.2.4 Corn Products	8
CHAPTER 5. MARKET ANALYSIS	9
5.1 RICE	9
5.2 WHEAT	10
5.3 DRY MILK	11
CHAPTER 6. JUSTIFICATION FOR MONETIZATION	13
6.1 END USE JUSTIFICATION	13
6.2 COST RECOVERY JUSTIFICATION	13
6.3 SUPPLY JUSTIFICATION	13
6.4 MARKET DEVELOPMENT JUSTIFICATION	13
CHAPTER 7. PROPOSED MECHANICS FOR MONETIZATION	14
CHAPTER 8. MONETIZATION SALES BUDGETS	16
8.1 RICE	16
8.2 WHEAT	16
8.3 WHEAT ONLY, WITHOUT RICE	16
8.4 ANALYSIS AND DISCUSSION	17
CHAPTER 9. SMALL-LOT SALES	18
CHAPTER 10. BOLSA AGRÍCOLA NACIONAL	19
CHAPTER 11. PORT AND STORAGE FACILITIES	20
CHAPTER 12 FOREIGN EXCHANGE IMPACTS	21
 ANNEX 1 GENERAL OBSERVATIONS AND RECOMMENDATIONS	 A1-1
ANNEX 2 LIST OF CONTACTS	A2-1
ANNEX 3 BIBLIOGRAPHY	A3-1

ABBREVIATIONS

AER	Annual Estimate of Requirements
CCC	Commodity Credit Corporation
CS	Cooperating Sponsors
CTS	Cargill Technical Services
DAP	Development Activity Proposal
DEIP	Dairy Export Incentive Program
FAS	Foreign Agricultural Service
FFP/BHR	Food for Peace/Bureau for Humanitarian Response of USAID
FY	Fiscal Year
GDP	Gross Domestic Product
LIFDC	Low-income Food Deficit Country
MBR	Maya Biosphere Reserve
MT	Metric Ton(s)
PL 480	Public Law no. 480
PVO	Private Voluntary Organization
USAID	United States Agency for International Development
UMR	Usual Market Requirement
USD	United States Dollar
USDA	United States Department of Agriculture

CHAPTER 1 INTRODUCTION

The objective of the assignment undertaken by the consultants was to conduct a market analysis to determine the parameters for a possible umbrella: an open and competitive small-lot, monetization scheme, beginning in FY 2001 for Guatemala PL 480 Title II CS utilizing value-added commodities for human consumption. The market analysis would identify up to six commodities that could generate the foreign currency funds needed to fund the PVO's programs while taking into account the imperatives and preferences of FFP, and would develop the market-related information needed for a detailed monetization plan, Bellmon analysis, Usual Market Requirement (UMR) analysis, and an analysis of the commercial context of each commodity recommended. The consultants understood that a budget of some USD 9 million is required for funding PVO activities in FY 2001.

Cargill Technical Services (CTS) undertook this assignment as a member of the ARD-RAISE Consortium. CTS' approach to this assignment was to balance the commercial understanding of commodity markets available through Cargill, with expertise in PL 480 monetization programs to determine prioritized options for value-added commodity monetization. This approach considered opportunities for competitive small-lot monetization through various means, including sales through Bolsa Agrícola.

The commercial perspectives of private companies engaged in commodity trading often differ from the perspectives of CS that monetize commodities, which have led to problems in the past, such as the disruption of local markets or the displacement of US exports. CTS arranged for the industry representatives of US commercial interests to discuss their concerns and suggestions on how monetization could be conducted in the country, and learn about the market structure of US exports of selected commodities.

FFP monetization guidelines require that the monetization of PL 480 Title II commodities address three objectives:

- ? generate the maximum amount of foreign currency funds for Title II food security activities;
- ? enhance household access to food, at least in the short run; and
- ? encourage, where appropriate, the development of competitive food marketing systems.

Over the past several years, the Guatemala PL 480 Title II program has been characterized by the successful monetization of bulk feed grains for animal consumption under an umbrella mechanism. This scheme has ensured the generation of a maximum amount of foreign currency funds with a minimum of transaction cost and enhanced household access to food by promoting the efficient production of poultry.

FFP has indicated that beginning in FY 2001, the Guatemala PL 480 Title II monetization program will have to shift away from commodities for animal consumption. FFP also has expressed a preference for value-added commodities. In addition, small-lot monetization schemes are encouraged to facilitate open and competitive sales, determine true market prices, increase market transparency, improve access of food supplies to small-scale buyers, possibly achieve higher sales prices, and generally strengthen market development.

CHAPTER 2 METHODOLOGY

To achieve this assignment's objective the team followed the methodology described below in the preparation of this report.

Pre-orientation: Prior to the team's orientation in CTS's office in Washington, DC, CTS' staff coordinated information gathering with Cargill Information Center for the most current data and information on Guatemala import statistics, market prices for available PL 480 commodities, contacts, regulations and duties, etc.

Orientation: Team orientation facilitated a meeting between the consultants and industry representatives to solicit their concerns and suggestions on how monetization could be conducted in the country, and learn about the market structure of US exports of selected commodities to Guatemala. Among these representatives were the North American Millers Association and the National Oilseed Processors Association. Representatives described their industry's interests in Guatemala and identified potential monetization bottlenecks. The team also used the orientation as an opportunity to familiarize themselves with the information gathered by the Market Analyst and Cargill Information Center. The team then departed to Guatemala and met with other US industry representatives in Guatemala as well as USAID Guatemala and the CS for their input.

Market Analysis: Following their orientation, the team finalized a shortlist of commodities that they would assess. The team undertook a preliminary market analysis of the shortlisted commodities and organized their research according to primary and secondary responsibilities. The final result of their market analysis was a prioritized and justified list of commodities for monetization. The team conducted extensive key informant interviews of Guatemalan businesses, industry representatives, and government officials on the structure of specific commodity markets. They also interviewed US Department of Agriculture Foreign Agricultural Staff (USDA FAS) staff on their market knowledge and to gather additional data.

Monetization Mechanics: The team examined the potential organization and structure of this monetization including the potential for an umbrella, open and competitive, small-lot monetization through the Agricola Bolsa. The team researched the Agricola Bolsa's operations and liquidity, including the tradability of its existing contracts and their standardized obligations. They then analyzed the potential for using Agricola Bolsa for each shortlisted commodity and prepared a recommendation on the viability/utility of the CS using Bolsa Agricola for monetizing the selected commodities. Following this assessment, the team investigated other possible means of monetization. The result of the team's review of monetization mechanics is incorporated into recommendations and options for monetizing each commodity on the shortlist.

Monetization Sales Budget: The team gathered information necessary for the sales budget during the market analysis and monetization mechanics phases of the assignment. They then obtained FAS price information and freight estimates from Washington, DC.

Monetization Justifications: The team prepared the final justification, based on the findings of the market analysis and determination of monetization mechanics. A summary of the monetization justifications, reflecting the team's findings, was presented to USAID in an exit interview prior to departure from Guatemala.

Findings Review: CTS arranged for US industry representatives to review the team's findings from the preliminary draft report. Their input has been incorporated into this report.

CHAPTER 3 BACKGROUND

Guatemala has been beset by multiple problems, all of which have severely retarded its political and economic development. The Peace Accords of 1996 ended 36 years of internal hostilities, a condition that in and of itself seriously curtailed economic progress and improvements in the standard of living. During this period, the administration of democratic institutions and the justice system was hampered and public participation in political life was limited, especially for the rural poor.

The foregoing situation is further compounded by a population of some 12,335,580 (July 1999 estimate), of which 43 percent are under 14 years of age, indicating the potential for an explosive growth in population in the near future. To illustrate this point, the average Guatemalan family has 5.3 children, the highest fertility rate in Latin America, with the indigenous Mayan population at 7.6 children per family. Furthermore, it is estimated that at least 75 percent of the population live in extreme poverty, with World Bank estimates as high as 80 percent. This runaway population growth has placed tremendous pressure on the available arable land, which accounts for only 12 percent of the total country's land area. To emphasize the low productivity of marginal land that has been pressed into cultivation using outmoded agricultural practices, agricultural production accounts for only 23.3 percent of the country's GDP but occupies 58 percent of the available labor force. Much of this production is subsistence farming, however, and the products do not enter into national economic statistics. Furthermore, after 36 years of civil war, the rural population's confidence in, and consequently their cooperation with, the government is minimal.

The scarcity of arable land has led to the invasion by local farmers of the Guatemalan Maya Biosphere Reserve (MBR), a 1.5 million hectare tract of natural tropical forests which is predicted to disappear by the year 2010 if farmers' slash and burn agricultural practices continue unchecked.

As a result of the unplanned population growth, combined with limited arable land, domestic production of corn and beans, the two staple crops of Guatemala, has fallen behind national requirements. Increased wheat imports have compensated for reduced consumption of corn and beans in urban areas. More than 50 percent of Guatemalan families cannot afford the basic food basket. The national malnutrition rate of 40 percent masks the much higher rate of up to 65 percent among indigenous children in the central highlands. It is reported that purchases of basic foods cost the poor Guatemalan family 70 percent of its income.

An indication of the limited outreach of social services is the national literacy rate of 62.5 percent among males and 48.6 percent among females (1995 estimate). Guatemala's population is fragmented into two basic groups, however, 56 percent are Spanish Amerindian and 44 percent Amerindian. But literacy rates between these two groups are not consistent in that they are positively skewed in favor of Spanish Amerindians who tend to live in cities and towns, whereas Amerindians live in the more remote rural areas where social service coverage is not well-extended. To further complicate the situation, the Amerindian population speaks one of 23 Amerindian tongues, with many of them unable to speak Spanish. Therefore, illiteracy among this group is considerably higher, perhaps as high as 70 percent among Mayan women.

Other social indicators show that less than 50 percent of the rural population have access to water systems, 75 percent have no electricity, and only 10 percent use sanitary facilities. Another

telling factor of the low standard of living among the population is their low state of health. 1999 estimates put life expectancy at 66 years and infant mortality at 46 per 1,000 live births (the highest rate in Central America). These rates are reportedly still higher among the Mayans in the Central Highlands.

3.1 USAID STRATEGY

Taken together, all of these factors combine to define Guatemala as a low-income food deficit country (LIFDC). USAID Guatemala's latest Congressional Presentation defined six critical activities intended to positively impact on this dire situation faced by a majority of Guatemalans:

- ? Strengthen democratic institutions and promote effective participation of the population, especially the indigenous women in these activities.
- ? Increase educational access, raise educational quality, and promote policies recognizing the diverse cultural and linguistic pluralism of the country.
- ? Improve the health status of Guatemalan women and children through improved access to health facilities, especially Mayan women and children in the highlands.
- ? Increase income of poor rural families, especially women and indigenous groups through higher value production, secure land titles, adoption of sustainable agricultural techniques, improved marketing methods, better access to financial and technical services, and improved family nutrition.
- ? Improve natural resource management through dissemination of sustainable, environmentally sound agricultural practices.
- ? Support implementation of the Peace Accords through the resettlement of displaced persons such as ex-combatants, refugees, and other war-affected populations in the formerly conflictive and resettlement zones.

3.2 PVO RESPONSE

The four PVOs involved in PL 480 Title II monetization (Catholic Relief Services, Save the Children Federation, World Share, and CARE) have long recognized the deplorable conditions under which the poorest segment of the Guatemalan population endures. In response, they have carefully designed programs that attack the root causes of these problems.

Their overall strategy, in brief, is to:

- ? increase food availability through improved agricultural practices,
- ? improve biological utilization of food by improving health systems,
- ? increase food access by increasing economic opportunities, and
- ? protect livelihood security by the rehabilitation of environment and infrastructure (availability, access and utilization).

The PVOs have targeted the poorest areas of the country in which their activities will have the greatest impact. Activities include sustainable cultivation practices, diversifying farming systems, post harvest crop management and marketing, improved access to health services, improved diet and nutrition, increased access to credit and savings, improved household and community infrastructure, and rehabilitation of damaged environments.

Emphasis is placed on food security of the most vulnerable groups — women and children. A central tenet of PVO methodology is the empowerment of women through their active involvement in all aspects of project design, implementation, and participation in community organizations. Sustainability of these projects is premised on the administration and “ownership” of community organizations being in the hands of the villagers themselves. Such organizations include farmers’ cooperatives, women’s groups, health and agricultural organizations, which in time will be managed solely by community members.

The overarching goal of the PVO programs is, therefore: **improved food security in a sustainable manner.**

Various subactivities will be undertaken to support the accomplishment of this goal, such as:

- ? improved cultivation techniques to increase crop yields;
- ? improved storage facilities to prevent waste and loss in storage;
- ? provide credit for small enterprise development to increase family income;
- ? improve nutrition and hygiene practices in the home;
- ? improve access to, and availability and quality of health services;
- ? increase basic sanitation structure; and
- ? train community members in leadership and the decision-making process, with emphasis on women.

In sum, PVO programs closely parallel USAID strategy in Guatemala and act in synergy to enhance the total impact of this combined effort. The PVO field personnel, with close and regular contact with program participants in the communities, add a valuable grassroots character to the programs through activities often implemented on a one-to-one, face-to-face basis. This process encourages participants to have a strong identity with, and a feeling of ownership in the project by involving participants’ pride, which greatly enhances the project’s possible success.

An important contribution to the success of the PVO’s projects, and as a consequence, the success of USAID’s Country Strategy, is the revenue generated through monetization of PL 480 Title II commodities. However, it is noted that the PVOs involved in this program support the majority of their activities with funding from sources other than monetization. For example, monetization represents only 19 percent of CARE’s total program budget. However, this contribution when utilized in concert with the remaining 81 percent of other donor support, has a far greater impact for all activities than if it were used alone. Integrated development programs therefore create a synergistic effect far greater than the sum of their parts.

Therefore, it may be concluded that monetization funds play a crucial role in both the efficacy of PVO activities while simultaneously augmenting USAID’s development strategy in Guatemala. It is also evident that the ultimate success of the food security strategy depends primarily on development activities funded through monetization, and that the direct distribution of food rations is merely filling a dietary void until development programs take hold. Thus, curtailing or stopping the monetization process would be devastating to USAID’s Guatemalan development strategy.

CHAPTER 4

REVIEW OF SHORTLISTED COMMODITIES FOR MONETIZATION

4.1 PRESELECTED COMMODITIES

Preliminarily, USAID Guatemala selected four commodities for the monetization shortlist:

- ? refined vegetable (soybean) oil in 4L or 20L containers,
- ? wheat flour,
- ? potato flakes, and
- ? black beans.

The preconditions for the feasible monetization of these and other commodities are that:

- ? First, the monetization does not disrupt local production and marketing structures.
- ? Second, the volume to be monetized meets the UMR.
- ? Third, at least benchmark cost recovery is obtained in the case of small-lot monetizations.
- ? Fourth, adequate storage is available.

The following analysis discusses each of the preselected commodities on the basis of their meeting these conditions.

4.1.1 Refined vegetable (soybean) oil in 4L or 20L containers

Guatemala is a successful producer of vegetable (palm) oil and will become a net exporter of vegetable oil later this year when the exports of palm oil will exceed the imports of soybean oil and sunflower oil. Capacity in the vegetable oil refining industry is more than adequate to satisfy domestic demand. Consequently the market is well supplied everywhere and all year.

In recent years there have been no imports of refined (let alone packaged) vegetable oil with the exception of contraband from Mexico and one time, small volume operations when someone had found a way to avoid or evade import duty.

The monetization of refined packaged soybean oil in competition with locally produced refined vegetable oil would have a very negative impact on local production and marketing structures and must therefore be rejected.

The 10 to 15 thousand MT of crude degummed soybean oil that are imported each year are mainly used to mix with palm olein to depress the cloud point of the latter in the winter and to achieve certain performance properties in shortenings. Monetization of additional crude degummed soybean oil would disturb usual marketing patterns in Guatemala.

4.1.2 Wheat flour

Wheat production in Guatemala is minimal. More than 95 percent of total domestic demand is met by imports. The wheat milling capacity in the country is more than adequate to meet the domestic demand for flour. Guatemala imported 429,000 MT wheat in 1998 while importing 6,434 MT of wheat flour (FAOSTAT database) and has consistently imported mostly whole grain and not flour. One reason for this preference for whole grain imports is that the 2000 tariff rate quota of 17,984 MT for wheat flour is 8.28 percent versus 15 percent for out of quota imports. Actual imports have been much lower than allowed under the quota at 1,000 MT to

2,500 MT per year. Such imports were mostly comprised of proprietary flour mixes for specialty products, like Dunkin Donuts. Any unused portion of the wheat flour quota is converted into wheat and added to the wheat quota on November 15th of each year.

The wheat millers are protected through quotas and differential import tariffs for wheat versus wheat flour. They are also protected by a certain reluctance on the part of flour buyers to deal with donated commodities sold to them by PVOs, because of the clear lack of after sales service.

The wheat flour market is well supplied, year round, everywhere in Guatemala. The monetization of wheat flour would have a negative impact on the country's production and marketing structures and must therefore be rejected.

4.1.3 Potato flakes

There is really no market for potato flakes in Guatemala at the moment. No figures on imports and/or domestic use are available. A substantial amount of market development would have to take place before even small amounts could be sold. The amount of net proceeds to be generated after deduction of the marketing costs would be negligible, if not negative. Monetization of potato flakes is not feasible at this time.

4.1.4 Black beans

Black beans are a staple in Guatemala and considered a "basic grain". The production is divided between two main areas with different growing and harvest seasons. Therefore, low points in the supply occur during January and the July through August period. However, the domestic marketing structures are sophisticated enough to bridge these supply gaps by building stocks during the harvest seasons.

Figures dealing with the imports of black beans differ significantly depending on the source. They all confirm, though, that imports have been insignificant during the last seven years at anywhere between 100 and 1,500 MT per year. The implication of these low import levels is that, depending on the harvest, there will either be no room in the market to monetize black beans or there may be room for a negligible amount. Monetization of black beans would be at best an unreliable source of very small amounts of funds. Therefore, we feel that it is not feasible.

Having obtained negative results for the monetization of the four pre-selected commodities, we discussed all alternative available commodities with various market participants.

4.2 Alternative Commodities

4.2.1 Soy Fortified Products

These include instant corn soymilk, corn soymilk, corn soy blend, soy fortified bulgur, soy fortified cornmeal, soy fortified rolled oats, soy fortified sorghum grits, wheat soy blend, and wheat soymilk. All of these products are relatively unknown to the Guatemalan public so there is no market demand. They are also relatively expensive products that were designed to introduce increased protein to young children's diets, often in controlled feeding environments such as infant feeding centers. These products are generally much more expensive than their nonfortified ingredients, and for the foregoing reasons, are not appropriate for monetization. The same reasons also apply to infant formula.

4.2.2 Beans

Other than black beans, there is little or no acceptance among Guatemalans of pinto, red, navy, great northern, pink, or kidney beans. The same holds true for yellow or green split or whole peas and lentils, although there may be miniscule markets for these products among the upper classes in select urban areas. Production and marketing figures for these products are not available, but the prevailing opinion is that these products are an insignificant part of the market and do not warrant further research.

4.2.3 Sorghum

Sorghum in Latin America is used as an animal feed and is therefore not eligible for monetization under the guidelines presented above.

4.2.4 Corn Products

American corn products such as whole corn and corn meal are produced with yellow corn. Guatemalans prefer white corn and do not accept the flavor or color of yellow corn, thus eliminating these products for consideration in this monetization.

CHAPTER 5

MARKET ANALYSIS

At this point in the analysis just three commodities remain that might provide an opportunity for monetization. They are:

- ? rice,
- ? wheat, and
- ? dry milk.

An analysis of these commodities on meeting the conditions and criteria for monetization follows:

5.1 RICE

The domestic production of rice is insufficient to satisfy the domestic demand. Each year, when the domestic production is known, an import quota is set in cooperation between producers, the millers, and the government. This quota covers mostly paddy rice, with insignificant amounts of milled rice and puffed rice added to it. The in-quota tariff rate for paddy rice is zero percent (0%) and the out of quota rate is a prohibitive 36 percent. Imports are only allowed in the period from February through May, although sometimes through June. Recently imports have been in the area of 30,000 MT per year, against consumption of over 50,000 MT per year, and are expected to remain at this level for the foreseeable future. Because of phytosanitary requirements, which act as a non-tariff barrier, all imports of paddy rice come from the US.

As the quota is carefully set by rice industry representatives, producers, and the government, monetization of imported paddy rice (which has to take place within the quota) would not disturb domestic production or marketing structures. A further factor favoring rice monetization is that the millers also cooperate in rice imports under the quota. Some rice millers import rough rice under the quota and then re-export the polished rice due to their low milling costs. All imports are presently originating from the USA. The UMR for rice is consequently rather low at 6,800 MT per year. However, monetization of this quantity could generate over USD 1 million. Also, the simple market structure ensures minimum marketing and transaction costs.

Although the Guatemalan rice millers have no experience with monetization, the biggest miller (and leader of the group) expressed a willingness to consider buying monetized rice at a slight discount to compensate for the inconveniences and disadvantages of buying PL 480 commodities versus buying on commercial terms. Although no realistic prices for US paddy rice for February/May, 2001 are available now, a recent price for paddy rice was USD 155 per MT, cost and freight Puerto Quetzal. This price included USD 22 per MT freight. The similarity between Guatemalan rice and wheat markets (discussed below) indicates that a discount of USD 10-15 per MT would be sufficient to make a sale. That would ensure benchmark recovery.

After the fieldwork for this study was completed, USAID in Washington advised that monetization of rice might not be approved because of commercial sales of US rice to Guatemala, which would eliminate rice as a potential commodity for monetization. This condition is not yet certain and will require further consultation among USAID, USDA, and industry representatives.

5.2 WHEAT

Domestic wheat production is very small, less than 5,000 MT/year, and falling. Of this domestically produced wheat, a significant portion finds its way into a coffee drink after being toasted. Consequently, almost all wheat needed by the millers has to be imported. There is a tariff rate quota for 391,322 MT. Additionally, the unused portion (i.e., almost all) of the wheat flour quota will be converted to wheat and added to this wheat quota on November 15th of each year. The quota is more than sufficient to cover domestic demand. In quota tariff is 1.2 percent and out of quota tariff is 6 percent. Guatemala imports over 400,000 MT wheat annually while importing less than 10,000 MT wheat flour.

Monetization of wheat would not disturb domestic production or marketing structure.

When the big PL 480 programs ended for Guatemala in 1994, the Canadians targeted this market. By delivering better quality wheat than called for under the contracts, competitive prices and good service, they captured about two-thirds of the Guatemalan market. For all practical purposes the remaining one-third comes from the US.

The millers have basically combined into two groups for imports. The Gutierrez group, which owns six mills and has three other independent mills that import with them, and the EMCECO group, which owns three mills and has two others that used to import with them. However, one of those mills is in financial difficulty and the other has been sold to a Salvadorian company and now sometimes imports with the Salvadorians.

To deal with the government in handling PL 480 Title I wheat, the millers act together to divide the spoils. The millers have also cooperated to handle a recent Title II monetization by NRECA, a rural electrification cooperative, for 30,000 MT with another 10,000 MT expected to arrive in September. The UMR for wheat is 156,200 MT, leaving ample room for monetization.

Buying Title II monetized wheat causes the millers a number of problems. There is a three to four month delay between the signing of the contract and the delivery of the wheat. The worst part of this, contrary to commercial shipments, is the unreliability of the actual arrival date. This uncertainty makes it impossible for the miller to plan the monetized wheat into his supply chain. Therefore, the miller risks a jump in his inventory levels when the wheat arrives with the ensuing extra storage and financing costs. Also, subsequent planned shipments have to be delayed causing logistical problems because many of them form part of combination cargoes.

Commercial shipments will arrive in self-geared bulk carriers as specified in the contract. PL 480 shipments quite often arrive in barges. Not only does this slow the discharge, causing extra costs, but also the barges are much more vulnerable to marine damage due to water entering through the hatches.

When shipping wheat under PL 480, there is no relationship between seller and receiver. Therefore, the quality of such shipments tends to be as low as possible while still meeting the required specifications.

In addition to these disadvantages of buying PL 480 wheat versus buying commercial US wheat the perception exists, probably at least somewhat justified, that the best US wheat is bought by the big domestic users before it reaches export channels. Canadian wheat, because of a much smaller domestic demand and the Wheat Board system, does not suffer from this perception. Consequently Canadian wheat is preferred over US wheat at the same price and for a comparable type.

Several factors affect monetized PL 480 wheat versus commercial US wheat. Obviously the buyers need a lower price for the monetized wheat to compensate for the extra cost and effort involved in dealing with it. It was indicated that the actual value of such costs and efforts has varied between USD 5 and 15 per MT. Also, it was indicated that the wheat millers are willing to deal with monetized wheat at a discount of USD 10-15 per MT to the commercial market for US wheat, depending on the exact conditions of the trade. US Wheat Associates reported to us that the Commodity Credit Corporation (CCC) has switched its purchases of wheat for the 416 program from No. 2 to No. 1. If such a switch could also be made for purchases made under the PL 480 Title II program, the discount required by the buyers would diminish and the willingness to consider US wheat would increase. Recently quoted prices, Costs and Freight Puerto Quetzal, were USD 115 MT for Soft Red Winter, USD 132 per MT for Hard Red Winter and USD 162 per MT for Northern Spring. These prices include USD 18 per MT for foreign flag ocean freight, based on grocery vessels or two port discharge, ex the US Gulf. Thus, benchmark recovery should be obtainable for monetized wheat.

5.3 DRY MILK

The production of fresh milk in Guatemala, as in most other tropical countries, satisfies only a small fraction of the total demand for dairy products. For instance, sales of milk in supermarkets may be delineated as follows:

- ? 5% real fresh milk;
- ? 10% reconstituted milk (a mixture of some fresh milk and mostly rehydrated nonfat dry milk enriched with vegetable oil);
- ? 15% UHT milk, mostly from Mexico, Costa Rica, and Chile; and
- ? 70% powdered milk as powder (to be rehydrated at home), mostly from New Zealand and Australia (Dairy Boards) and Europe (Nestle).

Outside the supermarkets the share of fresh and reconstituted milk declines even further because of a lack of refrigeration capacity in the “tiendas”.

In the production of ice cream, baked goods, etc., dry milk is used almost exclusively.

The New Zealand Dairy Board is by far the biggest importer of dry milk into Guatemala with the US holding a market share of about 10 percent.

Total imports of dry milk into Guatemala are approximately 18,000 MT per year. Most of this dry milk comes in consumer packages and is marketed as branded goods. Trying to replace this material with monetized products would clearly disturb existing Guatemalan distribution and marketing structures.

However, in a meeting with the main industrial users of dry milk, the reconstituted milk producers, and the ice cream makers, the opinion was expressed that monetization to these groups could work. (An interesting aside was that these producers did not want to receive the milk powder in bags that had USAID’s handshake printed on them because their personnel would assume that it had originated from an illegal or semi-legal operation.) The total demand from the industrial sector was estimated at 6,000 to 8,000 MT per year. More precise figures were promised but may not be available until after delivery of this report.

Monetization of 3,000 to 4,000 MT per year to this group would not disturb existing production and marketing structures.

US dairy product exporters have expressed their concern that only nonfat dry milk should be considered for monetization. Fresh milk and whole (or 2%) dry milk are very unstable products and risk ruination if there are shipment delays or other mishaps in the monetization process. They do not want to risk damage to the reputation of US dairy exporters that could result from product mishandling.

The UMR for dry milk for Guatemala is also not available at this time. However, in view of the small market held by US exports it is unlikely that this will be a limiting factor. The same cannot be said about benchmark recovery. All exports of dry milk from the US are only possible because they benefit from the Dairy Export Incentive Program (DEIP). This program brings the price of domestic dry milk (about USD 2,300 per MT), down to the world market price (about USD 1,700 per MT).

USDA Washington confirmed after this study was completed, that dry milk monetizations under Title II would not be eligible for DEIP, thus making benchmark recovery required on US domestic prices and dry milk monetizations not feasible. Therefore, even if nonfat dry milk again becomes available, it cannot be considered under current circumstance and costs.

CHAPTER 6

JUSTIFICATION FOR MONETIZATION

The agreed upon overall justification for this monetization study is to generate sufficient levels of revenue to enable the PVOs to implement their planned development programs.

The specific justifications listed in the SOW are taken from USAID's Monetization Field Manual, and therefore apply to all types of monetization methodologies: negotiated sales, tender sales, and auctions. Since this is the case, it would be difficult if not impossible, for any one type of sales method to fully meet all the requirements set forth in all four justifications. Furthermore, it is noted that any monetization sale will displace a commercial sale, therefore, monetization does not necessarily add directly to the total food available in the country.

In reference to this proposed monetization plan, the following comments apply to the various justifications listed in the Scope of Work.

6.1 END USE JUSTIFICATION

This is fully discussed in Chapter 3, under USAID Strategy and PVO Response. The essence of this strategy is the achievement of food security through a combination of short-term ration distribution and long-term economic and social development programs.

6.2 COST RECOVERY JUSTIFICATION

As stipulated in Chapter 5, it is expected that monetizations of wheat, dry milk powder, and rice will meet or exceed benchmark recovery requirements. Details are supplied in Chapter 8.

6.3 SUPPLY JUSTIFICATION

Because sales of wheat, dry milk powder and rice will be made to industrial processors, these sales will not add directly to the total food supply of the country. Rather, they will simply displace commercial sales as would occur in any commercial market. For this reason there would be no positive impact on food security through an overall increase in the quantity of food available. However, with the expanding population, it may be postulated that these same food processors will extend their distribution networks to areas not now being served, therefore improving food security by making their products accessible to a greater number of people.

6.4 MARKET DEVELOPMENT JUSTIFICATION

As stated above, local market development could occur as product distributors extend their distribution to areas not now being served. This would be the logical result of the increased demand generated by the development activities of the PVOs, funded by the revenue of this monetization. Such a development would naturally involve many more small- and medium-sized traders as well as retailers in the more remote areas. These traders may deal directly with the food processors or intermediaries may fill the gap, especially where long distances are an impediment to direct negotiations. The intermediary may also provide credit, which is an obstacle to the small merchant or trader's participation in the market.

Therefore, although it cannot be definitely stated that the supply and market development justification aspects of this monetization will have immediate and direct results, it is probable that a longer-term beneficial impact will be evident with the passage of time.

CHAPTER 7

PROPOSED MECHANICS FOR MONETIZATION

We have recommended wheat and rice for monetization because monetization of these commodities will not disturb local production and marketing; can be done while meeting the UMRs; will provide benchmark recovery and will generate, in combination, sufficient revenue to fund the PVOs' programs.

The end use of these commodities is human consumption of prepared whole grain, various baked goods, bleached white flour, and pasta.

Possible alternatives to wheat and rice would be yellow corn and soybean meal, which would perform similarly when monetized and whose end use would also be human consumption as various cuts of pork and, mainly, chicken. These products do not meet FFP's requirements for human consumption goods. Although, one can argue that by monetizing yellow corn or soybean meal the cost of feed may decrease, resulting in cheaper meat, making it more affordable for the poor.

On the condition that rice is approved: as rice can only be imported in the period from February through May and given the long delay between the approval of the contract and the delivery of the product, negotiations would have to take place in October/November aiming for a mid-February arrival in Puerto Quetzal.

Wheat import requirements are more or less stable during the year. As we are talking about a potentially substantial amount of wheat to be monetized (60 to 90,000 MT) it would be preferable to make a contract for 5,000-7,500 MT per month for twelve months. If current regulations make that impossible, it is proposed to have three or four monetizations per year at regular intervals. Negotiations should take place about four months before intended delivery.

Rice and wheat would be sold cost and freight Puerto Quetzal. This is because commercial sales are done on the same basis. Thus, the market is there and price comparisons can be made with ease.

The wheat millers have formed a group to deal with monetizations and they have experience with the process. It is proposed to negotiate the price, other conditions and contract terms with this group. Individual contracts may be signed with the different millers. At the time of negotiation the market prices for the different types of wheat and delivery periods are available. Therefore the negotiation should concern itself with obtaining the smallest discount acceptable to the millers to compensate for the disadvantages of monetized versus commercial wheat.

The rice millers do not have experience with monetization but it is a very small group, dominated by one major player. Therefore a similar sales methodology as for wheat is proposed.

The proposed payment terms would be Cash Against Documents with provisions for a Letter of Credit or Bank Guarantee in all cases.

In an earlier part of this report it was ascertained that these two commodities are in demand and there is no undue competition with similar/substitute commodities. Also the current sources and approximate amounts of supply were identified.

Monetization of wheat by the PVOs under Title II would require coordination with USDA on Title I and 416b programs. But with a UMR of 156,200 MT there should be room for the proposed 60-90,000 MT.

We are unaware of any other entities planning to donate or monetize rice.

For rice we propose to monetize anywhere from 5000 to 6800 MT (6800 MT is the UMR limit). This compares with total expected imports of 30,000 MT and a total domestic market of 80,000 MT.

For wheat we propose to monetize between 60 and 90,000 MT. This compares with total expected imports of 375,000 MT and a domestic market of 380,000 MT.

Storage facilities at the port and inland are irrelevant for this study, as title to the monetized commodities will have passed to the buyer before the goods enter storage.

CS will send the signed sales contracts to FFP/BHR for approval. To ensure that the best possible price is obtained, it is suggested that the actual contract negotiations will not be done by the PVOs who have limited experience in this area, but by US commercial interests or agents with general commodity trading experience.

CHAPTER 8 MONETIZATION SALES BUDGETS

8.1 RICE

For delivery mid-February, 2001 estimated costs and prices are as follows.

<i>US commodity price indication</i>	USD
6800 MT @ USD 140 per MT	952,000
<i>Ocean freight</i>	
6800 MT @ USD 25 per MT	170,000
<i>Internal transportation costs</i>	N/A
<i>Base Costs</i>	1,122,000
<i>Estimated sales revenue</i>	
6800 MT @ 150 per MT (no interest)	1,020,000
<i>Preliminary cost recovery estimate</i>	
1020/1122	90.9 %

8.2 WHEAT

We are planning to monetize, on the average, 75,000 MT of different types of wheat at an average price of USD 115/MT. Thus, for delivery during FY 2001, estimated costs and prices are as follows.

<i>US commodity price indication</i>	USD
75,000 MT @ USD 110 per MT	8,250,000
<i>Ocean freight</i>	
75,000 MT @ USD 20 per MT	1,500,000
<i>Internal transportation costs</i>	N/A
<i>Base Costs</i>	9,750,000
<i>Estimated sales revenue plus interest</i>	
75,000 MT @ USD 115 per MT (no interest)	8,625,000
<i>Preliminary cost recovery estimate</i>	
8625/9750	88.5 %

8.3 WHEAT ONLY, WITHOUT RICE

For delivery during FY 2001, estimated costs and prices are as follows, assuming market conditions will remain largely unchanged.

<i>US commodity price indication</i>	USD
82,000 MTS @ USD 110 per MT	9,020,000
<i>Ocean freight</i>	
82,000 MTs @ USD 20 per MT	1,640,000
<i>Internal transportation costs</i>	NA
<i>Base Costs</i>	10,660,000

Estimated Sales Revenue

3,000 MTs @ USD 1,600 MT (no interest)	9,430,000
--	-----------

Preliminary cost recovery estimate

88.46%

9430\10,660

8.4 ANALYSIS AND DISCUSSION

It has been observed that buyers who have previously established sources of supply have developed a relationship of trust and confidence over time with their regular suppliers, which they are reluctant to change. Therefore, the PVOs will, in all likelihood, meet some degree of resistance or at least reluctance on the part of the buyers of wheat and rice with whom they have not dealt previously. In their negotiations, the PVOs will have to offer incentives to attract the buyers and convince them to abandon their former suppliers. These incentives may be reduced prices, better credit terms, improved quality, etc. The process of winning the buyer's confidence and developing a productive relationship will take time, so it may not be feasible to expect the PVOs to completely convert their monetization program from animal feed to products for human consumption within the space of one fiscal year.

Given these conditions, it may be more realistic to consider FY 2001 as a transition year in which the PVOs attempt to monetize the maximum quantities of wheat and rice. If these combined sales fall short of the targeted USD 9 million, the shortfall can then be made up with sales of yellow corn and/or soybean meal. In this way, FY 2001 will allow the PVOs to establish themselves with wheat and rice buyers as legitimate suppliers, and develop good working relationships. Assuming that this strategy proves successful in FY 2001, the volume of wheat and rice sales can be expanded in FY 2002, and the monetization of animal feed can be completely phased out.

The FY 2001 Annual Estimate of Requirements (AERs) could therefore show monetization commodity values at USD 9 million, consisting of wheat, rice, and yellow corn, and soybean meal. As sales of wheat and rice progress during the year, the quantities of these commodities could be adjusted to meet sales levels. In the event that CS is unable to sell sufficient quantities of wheat and rice to raise the necessary USD 9 million in revenues, animal feed might then be supplemented to make up the difference. However, development of good working relations with the new buyers is essential to a complete phase-out of animal feed from the monetization program in FY 2002.

The above phase-over, which is projected to take place in one fiscal year, is based on the assumption that everything will go well and the PVOs will accomplish this phase-over in the given time. This prediction may be affected by unforeseen problems that delay the process beyond one year. Therefore, it is recommended that more than one year's latitude be allowed. Either that or the phase-over decision itself should be reconsidered. The consequences of a cut off of funds for these development programs would not only severely jeopardize the food security goal, but also impair whatever progress had been made to date.

CHAPTER 9

SMALL-LOT SALES

Small-lot monetizations may work well when war or other man-made or natural disasters have disrupted existing distribution channels. Their primary objective in those cases is to refill/restore established distribution channels. If the primary objective of the monetization is the generation of funds, and distribution channels are functioning normally, as is presently the case in Guatemala, small-lot sales are ill-advised because:

- ? First, PVOs would be required to import the commodities on their own account without having any firm commitment from a buyer or buyers, perform all customs clearances, pay all duties and taxes, and arrange transportation from the port to appropriate warehousing, all of which would have to be accomplished before any sale could be considered. Essentially, the PVOs would be assuming the risk of importing the commodities with the expectation of finding buyers in-country who would be willing to buy them at prices meeting benchmark requirements. This would be a high-risk operation.
- ? Second, the PVOs have neither the capital nor the trained personnel to manage such an operation, not to mention the expertise necessary to conduct small lot sales or cry out auctions.
- ? Third, the PVOs would be required to establish a complete marketing infrastructure with trained personnel, systems of accountability and control, and functions in which they have neither experience nor expertise.
- ? Fourth, in view of the above problems, the PVOs may be advised to contract out this work — a highly questionable procedure — or train their own personnel in its performance. PVOs that are supposed to be dedicated to humanitarian endeavors would thereby have to enter the commercial marketplace and perform operations quite alien to their stated mission.
- ? Fifth, in the case of wheat, large quantities of this product can be processed only by millers, therefore, small lot sales are inappropriate.

Also, there is enough anecdotal evidence to suggest that Guatemalan supply chain participants are sophisticated enough to know that once the commodities to be monetized have been warehoused, incurring storage charges and interest, the PVOs will be forced to sell before too long and they will be ready to take the PVOs to the cleaners. In sum, the suggestion of small lot auction schemes is considered counterproductive to the main goal of this proposed monetization: Generation of the maximum feasible amount of currency for Title II food security activities.

CHAPTER 10

BOLSA AGRÍCOLA NACIONAL

The Bolsa Agricola has existed since 1992 but did not really start operating until 1998. That first year it handled about USD 3 million of business. In 1999 it handled about USD 10 million but only 3 to 4 million of that was agricultural. The rest included some minor goods for privatization besides nonagricultural commodities. In 2000 they expect to do about USD 50 million but most of that will be steel. It is unlikely that they will handle an increasing share of agricultural products.

There are several reasons for this situation. A preexisting and fully functional system for trading agricultural commodities exists in Guatemala and the advantages of switching to trading on the Bolsa are not immediately obvious. One disadvantage of trading via the Bolsa is obvious. In most domestic trades the participants “forget” to pay applicable taxes. That is impossible for trades through the Bolsa, which are a matter of public record. As a result, transactions via the Bolsa are largely limited to interregional trade and imports, which are all subject for other reasons to registration and on which taxes cannot be avoided. Besides, there is a real question about how well the members of the Bolsa, through which one has to trade, are covering the potential market for the products to be traded. There is some anecdotal evidence of potentially interested parties not being made aware of impending opportunities on the Bolsa. If the Bolsa maintained active and liquid markets, this low level of communication would not be a problem as all interested parties would have equal access to the information.

Whether or not it would be appropriate to handle monetizations through the Bolsa depends on the market structure for the commodity to be monetized and one’s confidence that the members of the Bolsa cover that commodity market completely and in sufficient numbers to encourage competitive bidding.

In the case of possible monetizations of rice and/or wheat, the market structure is so simple (one to three buyers or groups of buyers) that use of the Bolsa would accomplish nothing but increased costs.

CHAPTER 11

PORT AND STORAGE FACILITIES

PUERTO QUETZAL

Puerto Quetzal is a new port built in 1983 primarily to handle bulk cargoes. Its facilities are fully capable of handling all the bulk grain shipments proposed in this study. It is located on the Pacific coast approximately 65 miles from Guatemala City over a good, all weather road. It is a deep draft port capable of berthing large vessels with grain silos owned by the private sector located near the port. Grupo Modernos, the largest milling group in Guatemala, has 14 Brock steel silos within three miles of the port. Wheat is discharged from vessels by grabs or clamshells, directly into vehicles waiting at dockside, and immediately transported to final or intermediate destinations. Discharge rates can reach 6,000 MTs per day if necessary.

CHAPTER 12

FOREIGN EXCHANGE IMPACTS

All monetizations will be denominated in USD, payable in Guatemala's national currency, the Quetzal, convertible at the rate prevailing on the date of payment. All monetization proceeds will be deposited into a separate account opened exclusively for that purpose. All funds received will be deposited immediately into an interest bearing account with the interest earned applied to the same preapproved development activities described in the original Development Activity Proposals (DAPs).

Inflation in Guatemala has averaged approximately eight percent annually in recent years and is expected to remain at this level in the near term. Interest paid on monetization accounts have exceeded 18 percent in the past, so it is expected that earned interest will more than offset the loss of purchasing power resulting from inflation.

ANNEX 1

ANNEX 1

GENERAL OBSERVATIONS AND RECOMMENDATIONS

The concern with food aid has always been its potentially negative impact on the domestic production and marketing structures in recipient countries. Direct distribution food aid, if carefully provided, can minimize if not eliminate these concerns by making sure that the beneficiaries are people that would not have been able to commercially acquire the distributed food. Thus the substitution component of the food aid would be minimal and the additionality component would approach 100 percent.

When moving from direct distribution food aid to monetizing food aid, the picture changes completely. The goal is no longer to give (surplus) food to hungry people but to sell (surplus) commodities to generate money to fight the root causes of hunger. Or, to paraphrase a well known saying, we do not want to give the hungry a fish but we want to sell fish to allow us to buy the hungry a fishing net and to teach them how to fish.

Since the goal is to raise as much money as possible, the commodities have to be priced at, or very close to, the market. This ensures that the additionality component of a monetization operation will be minimal and the substitution of commercial sales approaches 100 percent.

Of course our first concern must be not to hurt the domestic production, processing or marketing of the products (or substitutes for products) being monetized. This implies that no products should be imported for monetization at a further stage of processing or further up the marketing chain than they are already being imported commercially.

Our next concern is that the negative impact of the substitution on (primarily US) commercial interests is minimized and kept below a certain absolute level. This concern is addressed through the UMR, which limits the quantities to be monetized to an acceptably small percentage of total imports.

A third objective must be to minimize marketing and transaction costs as a percentage of revenue from the commodity to be monetized. This is important because marketing and transaction costs reduce the net revenue from the monetization. Therefore the higher these costs are, the more volume needs to be monetized to generate the needed funds. And the greater the monetized volume, the more commercial marketing patterns are disturbed.

These considerations have been at the basis of our analysis of the feasibility of monetizing certain commodities in Guatemala.

The reconsideration of the decision to phase-out monetization of animal feed is requested. If this cannot be done, an extension of time for the phase-over should be granted.

Unfortunately, many of the regulations governing the monetization of commodities were developed for the direct distribution of food aid and were not or were insufficiently adjusted for optimum effectiveness of reaching the totally different objectives of monetization. For instance, since the goal of monetization is not direct hunger relief but generation of funds for indirect hunger relief, it has become totally irrelevant whether the commodities to be monetized are food or food related. Rather their suitability for monetization should be judged by their ability to generate the necessary revenue with a minimum impact on existing commercial and marketing structures. In this light the decision to move away from animal feed for monetization should be reviewed.

Another example is leaving monetization to the PVOs. Whereas direct distribution of food aid is clearly a core competency of PVOs, the same cannot be said for extracting the maximum amount of revenue, from a certain quantity of commodity that is monetized. The potential buyers will almost certainly be more experienced and sophisticated market participants than the PVOs, resulting in considerably less than maximum net revenue.

We suggest that the regulations governing monetization of PL 480 Title II be reinterpreted or changed to allow monetization transactions to conform as closely as possible to similar commercial transactions. For instance, the same standard contract forms should be used as the commercial sales of the same commodity. If differences are unavoidable for legal reasons they should be kept to an absolute minimum. The same product and quality specifications as in the commercial contracts should govern. The same exactness of shipment or delivery dates should apply, the same specification of the means of delivery as well as guarantees about the speed of reception, etc.

Also, forward contracting should be allowed, e.g. sales of 2,000 MT per month to be shipped in the last ten days of each month for the next six or twelve months. For many commodities the CCC can contract the same way, back to back.

Since negotiating commercial commodity contracts is clearly not a core competency of the PVOs, we suggest that US commercial interests and/or agents be involved in this part of the operation. Keeping US commercial interests involved in, and responsible for, execution of the sale would also help ensure efficiency. Since there are no commodity traders experienced in wheat in Guatemala, contracting the services of such a trader from the United States is advised. The trader can then coordinate closely with the PVOs for guidance in meeting monetization and Title II PL 480 requirements. It is the responsibility of the PVOs to submit their AERs to USAID, and USAID's responsibility to approve them quickly.

All the suggestions above are geared to extracting the maximum amount of funds from the minimum volume of the monetized commodity, thus ensuring the absolute minimum of disturbance of normal commercial markets and trade patterns.

Regional Free Trade Zones

If regional free trade zones are in existence, like the Central American one that Guatemala belongs to, it does not make much sense to insist that the monetized commodities do not end up in the other member countries. It would be very hard, if not impossible, to guarantee such non-proliferation as well as to establish that it had, or had not occurred. Also, the intent of the rule is lost once national markets have been joined into a regional one.

The commodities that we suggest for monetization in this study are excluded from the common market. Therefore, no regional trade problem exists at this time.

ANNEX 2

ANNEX 2 LIST OF CONTACTS

The team met with many key informants in businesses, industry organizations, and government. A list of people we interviewed from whom we did not get business cards is given below. Copies of business cards are also included for those individuals from whom we received cards.

Roberto Herrate Igagsa (502) 334 1380	Enrique Arriola Agrocaribe (502) 367 5216
Sergio Morales Bolsa Agricola (502) 334 2479	Hugo Diaz Banco de Guatemala Estadisticas Economicas
Luis Alfredo Guzman SHARE Accountant 502-368-1845	Carlos Piedrasanta CARE 502-339-1139
Danielle Orellana USDA FAS Marketing Specialist 502-332-4030	

PVO's/CS

SHARE

Luis Alfredo Guzman Accountant 502-368-1845	John Lundine Representante de World SHARE en Guatemala 5a. Avenida 16-28, Zona 10 Tel.: 3681845 – 3662184/86/89 Fax 3335250 Worldshare@guate.net
---	---

CARE

Roberto Carlos Alvarez Depto. De Adquisiciones Plaza Corporativa Reforma Torre I 8o. Nivel, Avenida Reforma 6-64, Zona 9 Apdo. Postal 1211 Tel.: 3391139 Ext. 256 Fax.: 3391164 calvarez@care.org.gt	Kirsten Johnson Director Plaza Corporativa Reforma Torre I 8o. Nivel, Avenida Reforma 6-64, Zona 9 Apdo. Postal 1211 Tel.: 3391139 Fax.: 3391164
Carlos Piedrasanta 502-339-1139	

Save the Children

Luis F. Ramírez Country Representative/ PROMASA Project Coordinator 9a. Avenida 16-05, Zona 10 01010 Guatemala, C.A. Tel.: +502 3335487 – 3680428 Fax: +502 3633952 Ramirezl@intelnet.net.gt
--

Catholic Relief Services

Juli Majernik Monetization Technical Advisor Program Quality & Support Department 209 West Fayette Street Baltimore, Maryland 21201-3443 Tel: 410-625-2220 ext. 3452 Fax: 410-234-3178 Jmajernik@catholicrelief.org	Emilse Sagastume Gerente Administrativo Programa de Guatemala Apartado Postal 739-01901 1a Avenida 10-57, Zona 10 Tel: +502 3310285 – 3310603 Fax: +502 3320107 Crsadmin@emailgua.com
Miguel Mahfoud Sub-Director Programa de Guatemala Apartado Postal 739-01901 1a Avenida 10-57, Zona 10 Tel: +502 3310285 – 3310603 Fax: +502 3320107 Crsadmin@emailgua.com	

Commodity Associations

U.S. Wheat Associates, Inc.

<p>Bruce Hamnes Vice Chairman P.O. Box 357 Stephen, MN 56757-0357 Tel: 218-478-3382 Fax: 218-478-3341 Bhamnes@ruralaccess.net www.uswheat.org</p>	<p>Paul Dickerson Vice President of Overseas Operations 1620 I Street, N.W. Suite 801 Washington, DC 20006 Tel.: 202-463-0999 Fax: 202-785-1052 Pdickerson@uswheat.org www.uswheat.org</p>
<p>Mitchell J. Skalicky Regional Vice President Jamie Balmes No. 8, Suite 201, Corporativo Polanco Col. Polanco, México D.F., 11510 Tel: +525 281-6560 Fax: +525 281-3455 Mskalicky@uswheat.org</p>	<p>Alan T. Tracy President 1620 I Street, N.W. Suite 801 Washington, DC 20006 Tel.: 202-463-0999 Fax: 202-785-1052 Atracy@uswheat.org www.uswheat.org</p>

North American Miller's Association

<p>Paul Green Export Consultant 600 Maryland Ave., SW, Suite 305W Washington, DC 20024-2520 Tel: 202-484-2200 ext 106 Fax: 202-488-7416 Direct: 202-488-3566 Pbgreendc@aol.com</p>	<p><i>Global Food & Nutrition, Inc.</i> Nina P. Schlossman, PhD President 9914 Woodburn Rd. Suite 100 Silver Spring, MD 20901 Tel: 301-593-0624 Fax: 301-593-0255 Nschlossman@ids2.idsonline.com</p>
---	--

US Government Contacts/Guatemalan Government Resources

United States Department of Agriculture Foreign Agricultural Service

<p>Suzanne Heinen Consejera para Asuntos Agrícolas Office of Agricultural Affairs Avenida Reforma 7-01, Zona 10 Tel: +502 3324030 – 3348439 Fax: +502 3318293 Heinens@fax.usda.gov</p>	<p>Lic. Douglas Ovalle Agricultural Specialist Office of Agricultural Affairs Avenida Reforma 7-01, Zona 10 Tel: +502 3324030 – 3348439 Fax: +502 3318293 Ovalled@fas.usda.gov</p>
<p>Danielle Orellana Marketing Specialist 502-332-4030</p>	

USAID

<p>Brian Rudert Income & Natural Resources USAID/G-CAP Unit 3323 APO AA 34024 Tel: +502 3320585 Fax: +502 3320354 Brudert@usaid.gov</p>	<p>Julia Asturias Office of Environmental and Natural Resources USAID/G-CAP Unit 3323 APO AA 34024 Tel: +502 3320585 Fax: +502 3320354 Jasturias@usaid.gov</p>
--	---

Banco de Guatemala

<p>Hugo Diaz Estadísticas Económicas</p>
--

Guatemalan Industry/Market Players

<p>Agroindustrias Nacionales, S.A. Ing. Luis Fernando Sandoval M./Miguel A. Palma Km. 12.5 carretera al pacifico, villalobos Villa Nueva Tel.: 6311060 – 6311706 Fax: 3333986</p>	<p>Coproteca Ing. Julio Tejada 5a Calle 6-31, Zona 9 Tel.: 3343856 – 3344857 – 3318111 Fax: 3344858 – 3316751 – 3321619 – 3369392</p>
--	--

<i>Cooperativa de Lacteos Xelac, R.L.</i> Sr. José Alberto de Paz Kilómetro 189.5 San Cristóbal Totonicapán Tel.: 7689503 Fax: 7689681 Apdo. Postal 144 Quetzaltenango	<i>Distral, Ltda.</i> Sr. Ricardo Noguera Duperly Avenida Hinapié 2-17, Zona 13 Tel.: 3318749 – 3322028 Fax: 3322028
<i>Foremost Dairies de Guatemala, S.A.</i> Sr. Paulino Díaz Calzada Aguilar Batres 32-33, Zona 12 Tel.: 4762178 – 4762431 – 4766258 – 4422843 Fax: 4766262	<i>Ilgua, S.A.</i> Sr. Próspero Morales Dávila 8a. Ave. 12-01, Zona 12 Tel.: 4712885 – 4714561 Fax: 4714561
<i>Industriales Lacteas, S.A.</i> Ing. Fernando Martínez Km. 13.5 carretera al pacifico, aldea Villalobos Villa Nueva Tel.: 6360033 – 6311916 Fax: 6311058 – 6360031	<i>Pasteurizadora La Palma</i> Sr. Amilear Acevedo S. 8a. Calle 14-07, Zona 11 Tel.: 4724234 al 36 – 4710672 Fax: 4711619 – 4171622 – 4718385
<i>Alimentos Procesados, S.A. Helados Kandy</i> Lic. Jesús Río Nevado 35 calle 7-97, Zona 11 Tel.: 4764559 Fax: 4770134	<i>Unisola Div. Helados</i> Lic. Armando Criado Calzada Roosevelt 35-25, Zona 11 Tel.: 5994687 – 5994714 – 5994760
<i>Friziplan, S.A.</i> Lic. Alejandro Asturias 8a. Ave. 32-62, Zona 11 Col. Las Charcas Tels.: 4762867 – 4770020 Fax: 4770069	<i>Heladera Guatemalteca, S.A.</i> Lic. Martin Petrich Avenida Las Américas 6-00, Zona 13 Tel.: 3310412 – 3346407 Fax: 3346341
<i>Scribona</i> Sr. Rafael Picciotto 20 calle final 26-80, Zona 10 Telfax: 3682135	Mark Swisher Gerente General Anillo Periférico 17-36, Zona 11 Cell: 4043238 Tel: 4744223 – 4744235 Fax: 4744194 Mswisher@disagro.com

<i>Helados Sarita</i> Carlos Bosque Diaz Oficina 31 calle 13-41, Zona 12 Tels.: 4770594/95/97 Fax: 4770495 Sarita@guate.net	<i>Productos Sarita, S.A.</i> Sr. Carlos Enrique Bosque Castañeda 31 calle 13-41, Zona 12 Tels.: 4770594/95/97 Fax: 4770495
<i>Chivolac</i> Florencio N. Mazariegos Gerente General 5a. Av. 6-47, Zona 7 Colonia Landivar Tel: 4735035 Fax: 475005	<i>Molinos Modernos, SA</i> Alberto Garita González Gerente General 33 Calle 25-30, Zona 12 Tel: 4423439 Agarita@molinter.guate.com
<i>Arrocera Los Corrales, SA</i> Rinca San Francisco, Villa Nueva Apartado Postal 884 Tel: 6310077 – 6312147 Fax: 6310134 Corrales@guate.net	<i>Igagsa</i> Roberto Herrate (502) 334 1380
<i>Grupo Buena</i> Jorge Raul García Granados Presidente 19 Av. 16-30, Zona 10 Tel.: 3630421 – 3630431 - 3370178 Fax: 3370214	<i>Grupo Buena</i> Lic. Raúl García Granados Director Operaciones 19 Av. 16-30, Zona 10 Tel.: 3630421 – 3630431 - 3370178 Fax: 3370214
<i>Agrocaribe</i> Enrique Arriola (502) 367 5216	<i>Bolsa Agrícola</i> Sergio Morales (502) 334 2479

ANNEX 3

ANNEX 3 BIBLIOGRAPHY

- FAOSTAT Database, “Dry Bean Imports and Exports – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Food Balance Sheet – Guatemala 1998”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Food Balance Sheet – Guatemala 1997”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Maize Imports and Exports – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Maize Production – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Rice Production – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Vegetable Oils and Fats – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Vegetable Oils Imports and Exports – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Rice Imports and Exports – Guatemala”, FAOSTAT Database, 3/2/2000.
- FAOSTAT Database, “Wheat and Wheat Flour Imports and Exports – Guatemala”, FAOSTAT Database, 3/2/2000.
- Bolsa Agricola, <http://www.bolsagricola.com/agricola.htm>, 3/10/2000-4/19/2000.
- Banco de Guatemala, “Estadísticas Economicas de Importaciones, Exportaciones, y Produccion” for past 5 years.
- Consejo Nacional de Desarrollo Agropecuario, “Granos Basicos, Produccion y Comercializacion Situacion Actual y Perspectivas,” 1997.
- Economist Intelligence Unit, “Country Report – Guatemala, First Quarter 2000”
- Economist Intelligence Unit, “March 9, 2000 – Guatemala: Quarterly economic indicators”.
- Heinan, Suzanne, “Guatemala Agricultural Situation 1998, FAS GAIN Report”, 9/30/1998.
- Heinan, Suzanne, “Guatemala Annual Marketing Plan INFORMATION REPORT 1998”, FAS GAIN Report, 7/31/1998.
- Heinan, Suzanne, “Guatemala Oilseeds and Products 1999”, FAS GAIN Report, 3/01/1999.
- Heinan, Suzanne, “Guatemala Retail Sector Report 1999”, FAS GAIN Report”, 11/15/1999
- Heinan, Suzanne, “Post Report – Grain and Feed – Guatemala”, FAS Attache Report, 07/01/1998.